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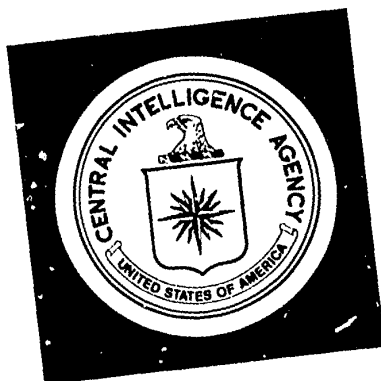
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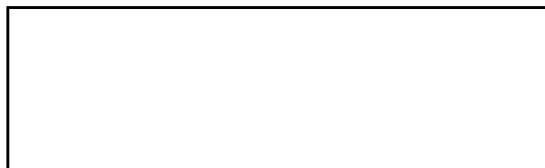
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*Israel's Case for War Aid*



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## Israel's Case for War Aid

## SUMMARY AND CONCLUSIONS

Israel projects balance-of-payments deficits totaling US \$0.4 billion in 1973-75, on top of US aid of \$3.8 billion, including \$2.2 billion in emergency aid. The major basis for these projections is a huge military import bill - about \$5 billion - which would permit a massive buildup of the Israeli military establishment. Even if the need for such large military imports is accepted, other assumptions underlying the Israeli projections would appear to be subject to question.

We believe that:

- Civilian imports will be lower than the Israeli projections because the rate of world inflation will be more nearly 10% than 25%.
- Export growth will be about half that estimated by Israel because economic growth in Israel's major markets will be small.
- Inflows of funds from transfers and capital will not drop to as low a level as that projected by Israel.

On balance, these differences add up to net foreign financing requirements, including US aid, smaller than the Israeli projections. The provision of the full \$2.2 billion in emergency US military assistance would give Israel an extremely favorable balance-of-payments position - we project a surplus of \$1.2 billion during 1973-75.

Israel's economy was experiencing an increasingly healthy growth pattern before the war. Export growth was outpacing import growth with a resulting decline in the current account deficit. At the same time, unilateral transfers and bond sales were holding up. Thus Israeli dependence on US aid was declining, with nearly all of it being used to build up foreign exchange reserves. Economic self-sufficiency is still far off, but an early negotiated peace or even an easing of tensions could hasten the return of the economy to the favorable trends of recent prewar years.

Note: Comments and queries regarding this publication are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted]

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